

MERRITT TOWNSHIP  
BAY COUNTY, MICHIGAN

FINANCIAL STATEMENTS  
MARCH 31, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name MERRITT TOWNSHIP	County Bay
Fiscal Year End 03/31/06	Opinion Date 05/03/06	Date Audit Report Submitted to State 9-11-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-893-5577	
Street Address 1600 Center Ave		City Bay City	State Mi
		Zip 48707	
Authorizing CPA Signature <i>Stewart J Reid, CPA</i>	Printed Name STU REID	License Number 1101008826	

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## **INDEPENDENT AUDITORS' REPORT**

May 3, 2006

Township Board  
Township of Merritt  
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Merritt, Bay County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the Township of Merritt as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Township Board  
Township of Merritt  
May 3, 2006  
Page 2

The accompanying management's discussion and analysis and budgetary comparison information, as identified in the index, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Merritt Township's basic financial statements. The accompanying other supplemental information, as identified in the index, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

Our discussion and analysis of the Township of Merritt's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006.

**Financial Highlights**

The General Fund reported a decrease in fund balance of \$6,000 resulting in a balance of \$331,000 at the end of the year.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Merritt financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements for the Township's water operations. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund, Road Construction Fund and Fire Equipment Fund  
(Required Supplemental Information)

Other Supplemental Information

**Reporting the Township as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

**Reporting the Township's Most Significant Funds**

*Fund Financial Statements*

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Proprietary Funds*

These funds are reported in fund financial statements and generally report services for which the Township charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

This fund presents the Township's water operations that are managed by the Bay County Department of Water and Sewer. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2005.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

*Fiduciary Funds*

The Township is the trustee, or fiduciary, for tax collections. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We excluded these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

**Government-wide Financial Analysis**

**Financial position** - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2006 and 2005.

<b><u>Exhibit A</u></b>						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Current and other assets	\$ 1,572,000	\$ 1,497,000	\$ 213,000	\$ 144,000	\$ 1,785,000	\$ 1,641,000
Capital assets - net of accumulated depreciation	<u>323,000</u>	<u>305,000</u>	<u>3,792,000</u>	<u>3,786,000</u>	<u>4,115,000</u>	<u>4,091,000</u>
Total assets	<u>1,895,000</u>	<u>1,802,000</u>	<u>4,005,000</u>	<u>3,930,000</u>	<u>5,900,000</u>	<u>5,732,000</u>
<b>Liabilities</b>						
Current liabilities	13,000	11,000	273,000	247,000	286,000	258,000
Long-term liabilities	<u>0</u>	<u>0</u>	<u>2,922,000</u>	<u>3,019,000</u>	<u>2,922,000</u>	<u>3,019,000</u>
Total liabilities	<u>13,000</u>	<u>11,000</u>	<u>3,195,000</u>	<u>3,266,000</u>	<u>3,208,000</u>	<u>3,277,000</u>
<b>Net Assets</b>						
Invested in property and equipment - net of related debt	323,000	305,000	639,000	542,000	962,000	847,000
Restricted	801,000	774,000	0	0	801,000	774,000
Unrestricted	<u>758,000</u>	<u>712,000</u>	<u>171,000</u>	<u>122,000</u>	<u>929,000</u>	<u>834,000</u>
Total net assets	<u>\$ 1,882,000</u>	<u>\$ 1,791,000</u>	<u>\$ 810,000</u>	<u>\$ 664,000</u>	<u>\$ 2,692,000</u>	<u>\$ 2,455,000</u>

Merritt Township  
Management's Discussion & Analysis  
For the Year Ended March 31, 2006

Exhibit A , on the previous page, focuses on net assets. The Township's total net assets were \$2,692,000 at March 31, 2006. Capital assets net of related debt, totaling \$962,000 compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of \$801,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Township's ability to use those net assets for day-to-day operations.

The \$929,000 of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

**Results of operations** - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2006. Exhibit B provides a summary of the Township's operations for March 31, 2006 and 2005.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

**Exhibit B**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 22,000	\$ 25,000	\$ 475,000	\$ 431,000	\$ 497,000	\$ 456,000
Grants and contributions	25,000	6,000	0	0	25,000	6,000
General revenue:						0
Property taxes	626,000	684,000	0	0	626,000	684,000
State revenue sharing	106,000	107,000	0	0	106,000	107,000
Investment earnings	34,000	14,000	4,000	1,000	38,000	15,000
Other	84,000	30,000	0	0	84,000	30,000
<b>Total revenue</b>	<b>897,000</b>	<b>866,000</b>	<b>479,000</b>	<b>432,000</b>	<b>1,376,000</b>	<b>1,298,000</b>
<b>Function/Program Expenses</b>						
General government	154,000	157,000	0	0	154,000	157,000
Public safety	77,000	59,000	0	0	77,000	59,000
Public works	151,000	118,000	0	0	151,000	118,000
Recreation and culture	1,000	1,000	0	0	1,000	1,000
Sanitation	63,000	61,000	0	0	63,000	61,000
Protective inspections	10,000	12,000	0	0	10,000	12,000
Payment to Enterprise Fund	349,000	312,000	0	0	349,000	312,000
Water and sewer	0	0	333,000	337,000	333,000	337,000
<b>Total expenses</b>	<b>805,000</b>	<b>720,000</b>	<b>333,000</b>	<b>337,000</b>	<b>1,138,000</b>	<b>1,057,000</b>
<b>Increase in Net Assets</b>	<b>\$ 92,000</b>	<b>\$ 146,000</b>	<b>\$ 146,000</b>	<b>\$ 95,000</b>	<b>\$ 238,000</b>	<b>\$ 241,000</b>

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

As reported in the statement of activities, the cost of all of our governmental and business-type activities this year was \$1,138,000. Certain activities were partially funded by \$497,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our governmental and business-type activities with \$626,000 in taxes, \$106,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$92,000 mainly due to receiving donations for the walking trail and early payoffs on water assessments.

**The Township's Funds**

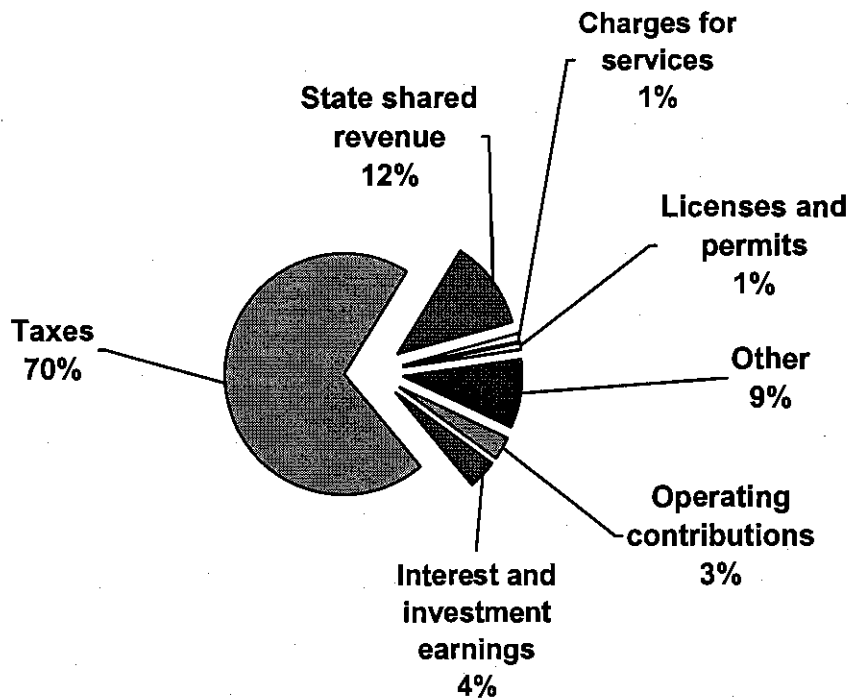
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental funds reported a combined fund balance of \$1.56 million, which is above last year's total of \$1.48 million. The schedule below details the fund balance and the total change in fund balances as of March 31, 2006 and 2005.

	Fund Balance March 31, 2006	Fund Balance March 31, 2005	Increase (Decrease)
General fund	\$ 331,000	\$ 337,000	\$ (6,000)
Special revenue funds	427,000	374,000	53,000
Debt service funds	798,000	771,000	27,000
Capital projects fund	3,000	3,000	0
Total	<u>\$ 1,559,000</u>	<u>\$ 1,485,000</u>	<u>\$ 74,000</u>

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

The graph below details the major sources of the Township's revenues.



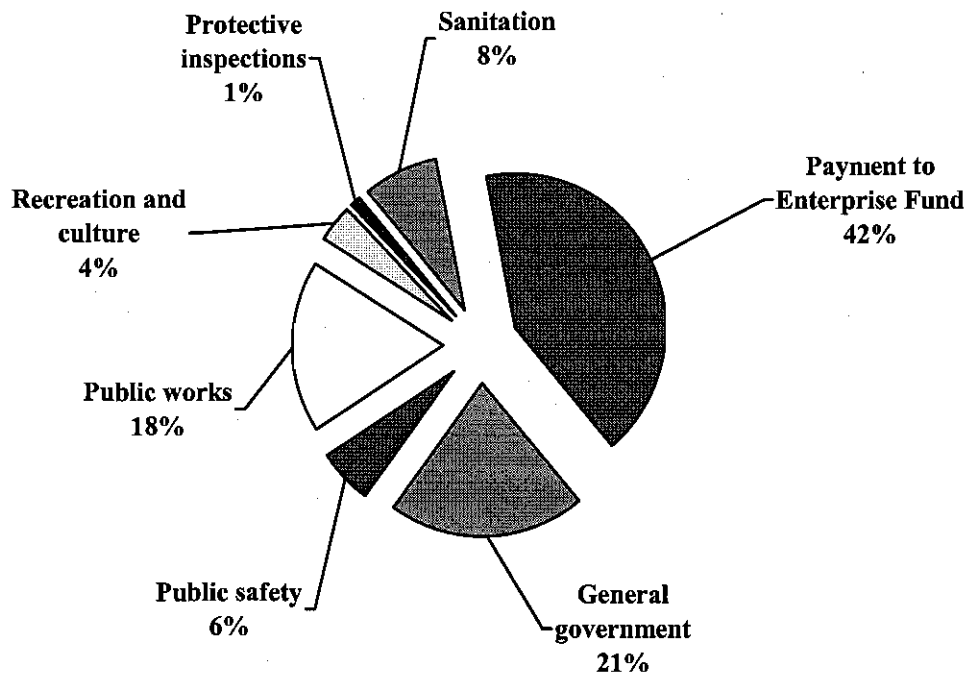
The chart below compares current year revenues with last year.

	2006 Amount	2005 Amount	Percentage Change
<i>Revenues by Function</i>			
Taxes	\$ 626,000	\$ 684,000	-8%
State shared revenue	106,000	107,000	-1%
Charges for services	15,000	13,000	15%
Licences and permits	7,000	12,000	-42%
Operating grants/contributions	25,000	5,500	355%
Interest and investment earnings	34,000	14,000	143%
Other	84,000	30,000	180%
<b>Total</b>	<b>\$ 897,000</b>	<b>\$ 865,500</b>	<b>4%</b>

Revenues are up \$31,500 or 4% mainly due to an increase in contributions for the walking trail, increase in interest rates, and an increase in residents paying off their water assessments early.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

The graph below details the major expenditure categories of the Township.



The chart below compares current year expenditures with last year.

	2006 Amount	2005 Amount	Percentage Change
<i>Expenditures by Function</i>			
General Government	\$ 169,000	\$ 152,000	11%
Public Safety	50,000	29,000	72%
Public Works	151,000	118,000	28%
Sanitation	63,000	61,000	3%
Capital outlay	0	175,000	-100%
Recreation and culture	31,000	1,000	3000%
Protective inspections	10,000	12,000	-17%
Payment to Enterprise Fund	349,000	312,000	12%
<b>Total</b>	<b>\$ 823,000</b>	<b>\$ 860,000</b>	<b>-4%</b>

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

Expenditures are down \$37,000 or 4% from the prior year mostly due to a decrease in the purchase of capital assets.

**Water System Fund** - The Township's Proprietary fund (the Bay County DWS Merritt-Portsmouth Water Enterprise Fund) reported net assets of \$810,000 which is an increase of \$146,000 over last year's net assets of \$664,000. Operating revenues exceeded operating expenses for the year.

**General Fund Budgetary Highlights**

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- There was no change in the original budget for revenues. Budget expenditures increased from \$272,000 for \$305,000 mainly because of an increase in professional services for a fire clean up and demolition of a residential home, the purchase of a copier, an increase in county road patrol costs, and the drain at large cost were higher than anticipated.
- Actual revenues exceeded budgeted revenues by approximately \$29,000 during the fiscal year. The excess is mostly due to the fact that Investment Income was not reduced as significantly as anticipated when the budget was prepared.
- Actual expenditures for the year were approximately \$30,000 less than anticipated mainly in the general government area and capital outlay. The difference in the general government was mainly because not as many repairs were needed as was anticipated for buildings and grounds.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

**Capital Assets**

At March 31, 2005, the Township had \$4.1 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and water systems. This amount represents a net increase (including additions and disposals) of approximately \$24,000 from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 94,000	\$ 94,000	\$ 0	\$ 0	\$ 94,000	\$ 94,000
Buildings and improvements	808,000	778,000	0	0	808,000	778,000
Vehicles	341,000	341,000	0	0	341,000	341,000
Machinery and equipment	134,000	112,000	0	0	134,000	112,000
Water system	0	0	4,752,000	4,631,000	4,752,000	4,631,000
 Total capital assets	 1,377,000	 1,325,000	 4,752,000	 4,631,000	 6,129,000	 5,956,000
Less accumulated depreciation	1,054,000	1,020,000	960,000	845,000	2,014,000	1,865,000
 Net capital assets	 <u>\$ 323,000</u>	 <u>\$ 305,000</u>	 <u>\$ 3,792,000</u>	 <u>\$ 3,786,000</u>	 <u>\$ 4,115,000</u>	 <u>\$ 4,091,000</u>

This year's additions of \$51,000 consisted of a #1620 Copy Star copier, a M-100 Voting Tabulator purchased by the State of Michigan, the completion of the walking trail partially funded by donations, and a JD 1435 Mower partially funded by the Munger Volunteer Firemen Corporation.

We present more detailed information about our capital assets in the notes to the financial statements. Capital additions next year will be the purchase of a pumper fire truck for the Fire Department.

**Merritt Township**  
**Management's Discussion & Analysis**  
**For the Year Ended March 31, 2006**

**Debt**

At the end of this year, the Township had \$3.2 million in long-term debt outstanding versus \$3.3 in the previous year – a change of 3%. All of the Township's debt is related to water system improvements and is reported in the proprietary fund as the Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund. This debt is summarized as follows:

	<u>2006</u>	<u>2005</u>
Revenue Bonds	\$ 176,000	\$ 191,000
Special Assessment Bonds	3,041,000	3,119,000
	<u>\$ 3,217,000</u>	<u>\$ 3,310,000</u>

The Township's General Obligation Bond rating continues to be equivalent to the State's credit rating. We are anticipating issuing debt next year to finance the waterline construction in District J.

**Factors Expected to Have an Effect on Future Operations**

The current road millage ends December 1, 2007. Voters will be asked for a millage renewal at the May 2007 election.

**Contacting The Township's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 48 East Munger Road, Munger, MI 48747

Merritt Township  
Statement of Net Assets  
March 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments	\$ 1,428,118	\$ 161,811	\$ 1,589,929
Receivables:			
Accounts receivable	0	45,313	45,313
Accrued interest receivable	0	747	747
Advances	90,633	340	90,973
Taxes receivable	53,517	0	53,517
Due from other governments	0	4,390	4,390
Capital assets less accumulated depreciation of \$2,013,679	322,666	3,792,321	4,114,987
 Total assets	 1,894,934	 4,004,922	 5,899,856
<u>Current Liabilities</u>			
Bonds payable	0	214,759	214,759
Accounts payable	11,635	35,534	47,169
Accrued interest payable	0	21,269	21,269
Hall security deposit	1,100	444	1,544
Compensated absences	0	830	830
Total current liabilities	12,735	272,836	285,571
<u>Long-term Liabilities</u>			
Compensated absences	0	4,708	4,708
Bonds payable	0	2,917,407	2,917,407
Total long-term liabilities	0	2,922,115	2,922,115
 Total liabilities	 12,735	 3,194,951	 3,207,686
<u>Net Assets</u>			
Investment in capital assets - net of related debt	322,666	638,886	961,552
Restricted for debt service	798,039	0	798,039
Restricted for capital projects	3,316	28,182	31,498
Unrestricted	758,178	142,903	901,081
 Total net assets	 \$ 1,882,199	 \$ 809,971	 \$ 2,692,170

See accompanying notes to financial statements.

Merritt Township  
Statement of Activities  
For the Year Ended March 31, 2006

Functions/Programs	Net (Expenses) Revenue and Changes in Net					
	Program Revenues			Assets		
	Expenses	Charges for Services	Operating Grants/ Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
General government	\$ 153,817	\$ 15,324	\$ 0	\$ (138,493)	\$ 0	\$ (138,493)
Public safety	76,640	0	0	(76,640)	0	(76,640)
Public works	151,640	0	0	(151,640)	0	(151,640)
Recreation and culture	1,133	0	24,929	23,796	0	23,796
Sanitation	63,035	0	0	(63,035)	0	(63,035)
Protective inspections	10,213	6,798	0	(3,415)	0	(3,415)
Other	580	0	0	(580)	0	(580)
Payment to Enterprise Fund	348,765	0	0	(348,765)	0	(348,765)
Total governmental activities	805,823	22,122	24,929	(758,772)	0	(758,772)
Business-type activities:						
Water	333,367	475,270	0	0	141,903	141,903
Total business-type activities	333,367	475,270	0	0	141,903	141,903
Total	\$ 1,139,190	\$ 497,392	\$ 24,929	(758,772)	141,903	(616,869)
General revenues:						
Taxes				625,932	0	625,932
State shared revenue				106,383	0	106,383
Investment earnings				34,058	4,046	38,104
Other				84,065	0	84,065
Total general revenues				850,438	4,046	854,484
Change in net assets				91,666	145,949	237,615
Net assets - beginning of year				1,790,533	664,022	2,454,555
Net assets - end of year				\$ 1,882,199	\$ 809,971	\$ 2,692,170

See accompanying notes to financial statements.

Merritt Township  
Governmental Funds  
Balance Sheet  
March 31, 2006

	Special Revenue Fund				Debt Service Funds			Other Nonmajor Governmental Funds	Total
	General	Road Construction Fund	Fire Equipment Fund		Water A & B	Water C, D & E			
Cash and investments	\$ 282,266	\$ 216,739	\$ 43,219	\$	\$ 411,940	\$ 241,711	\$	\$ 232,243	\$ 1,428,118
Receivables:									
Taxes receivable	4,409	7,736	2,678		10,616	17,639		10,439	53,517
Advances	0	0	90,633		0	0		0	90,633
Due from other funds	51,754	0	0		0	0		4,890	56,644
Total assets	\$ 338,429	\$ 224,475	\$ 136,530	\$	\$ 422,556	\$ 259,350	\$	\$ 247,572	\$ 1,628,912

LIABILITIES AND FUND BALANCE

Liabilities									
Accounts payable	\$ 6,188	\$ 0	\$ 0	\$	\$ 0	\$ 0	\$	\$ 5,447	\$ 11,635
Due to other funds	0	0	51,754		0	0		4,890	56,644
Hall security deposits	1,100	0	0		0	0		0	1,100
Total liabilities	7,288	0	51,754		0	0		10,337	69,379
Fund Balance									
Undesignated	331,141	224,475	84,776		422,556	259,350		237,235	1,559,533
Total liabilities and fund balance	\$ 338,429	\$ 224,475	\$ 136,530	\$	\$ 422,556	\$ 259,350	\$	\$ 247,572	\$ 1,628,912

See accompanying notes to financial statements.

Merritt Township  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
March 31, 2006

Total fund balance - governmental funds	\$ 1,559,533
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

Cost of the capital assets	\$ 1,376,781	
Accumulated depreciation	<u>(1,054,115)</u>	<u>322,666</u>

Total net assets - governmental activities	<u>\$ 1,882,199</u>
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See accompanying notes to financial statements.

Merritt Township  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended March 31, 2006

	Special Revenue Fund			Debt Service Funds			Other	
	General	Road Construction Fund	Fire Equipment Fund	Water A & B	Water C, D & E		Nonmajor Governmental Funds	Total
<b>Revenues</b>								
Taxes	\$ 79,080	\$ 135,475	\$ 45,845	\$ 85,395	\$ 153,133	\$	\$ 127,004	\$ 625,932
State shared revenue	104,961	0	0	0	0		1,422	106,383
Charges for services	15,324	0	0	0	0		0	15,324
Interest	21,146	0	0	10,324	2,309		279	34,058
Licenses and permits	0	0	0	0	0		6,798	6,798
Other	21,188	0	0	3,903	19,089		64,814	108,994
<b>Total revenues</b>	<b>241,699</b>	<b>135,475</b>	<b>45,845</b>	<b>99,622</b>	<b>174,531</b>		<b>200,317</b>	<b>897,489</b>
<b>Expenditures</b>								
General government	168,481	0	0	0	0		0	168,481
Public safety	47,170	0	0	0	0		2,751	49,921
Public works	25,884	125,756	0	0	0		0	151,640
Recreation activities	0	0	0	0	0		30,830	30,830
Protective inspections	0	0	0	0	0		10,213	10,213
Sanitation	0	0	0	0	0		63,035	63,035
Other	0	0	0	0	275		305	580
Payment to Enterprise Fund for debt service	0	0	0	81,321	186,258		81,186	348,765
<b>Total expenditures</b>	<b>241,535</b>	<b>125,756</b>	<b>0</b>	<b>81,321</b>	<b>186,533</b>		<b>188,320</b>	<b>823,465</b>
Excess of revenues over (under) expenditures	164	9,719	45,845	18,301	(12,002)		11,997	74,024
<b>Other Financing Sources (Uses)</b>								
Operating transfers in from other funds	0	0	0	0	0		6,300	6,300
Operating transfers out to other funds	(6,300)	0	0	0	0		0	(6,300)
<b>Total other financing sources (uses)</b>	<b>(6,300)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>6,300</b>	<b>0</b>
<b>Net change in fund balance</b>	<b>(6,136)</b>	<b>9,719</b>	<b>45,845</b>	<b>18,301</b>	<b>(12,002)</b>		<b>18,297</b>	<b>74,024</b>
<b>Fund balance - beginning of year</b>	<b>337,277</b>	<b>214,756</b>	<b>38,931</b>	<b>404,255</b>	<b>271,352</b>		<b>218,938</b>	<b>1,485,509</b>
<b>Fund balance - end of year</b>	<b>\$ 331,141</b>	<b>\$ 224,475</b>	<b>\$ 84,776</b>	<b>\$ 422,556</b>	<b>\$ 259,350</b>		<b>\$ 237,235</b>	<b>\$ 1,559,533</b>

See accompanying notes to financial statements.

Merritt Township  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended March 31, 2006

Net change in fund balance - total governmental funds	\$ 74,024
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Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures; in the  
statement of activities, these costs are allocated over their  
estimated useful lives as depreciation:

Depreciation expense	(33,796)
Capital outlay	<u>51,438</u>

Change in net assets of governmental activities	<u><u>\$ 91,666</u></u>
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See accompanying notes to financial statements.

Merritt Township  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended March 31, 2006

Gross service charges	\$ 187,155
Water costs	<u>62,823</u>
Gross profit	<u>124,332</u>
Operating revenues:	
Service connections	14,529
Charges, fees, etc.	<u>5,619</u>
Total operating revenues	<u>20,148</u>
Operating expenses:	
Personal services	40,338
Utilities	2,447
Operation and maintenance	12,822
Administration	4,818
Fiscal and other charges	2,320
Depreciation	<u>114,749</u>
Total operating expenses	<u>177,494</u>
Operating income (loss)	(33,014)
Nonoperating revenues (expenses):	
Interest income	4,046
Interest expense	(153,457)
Payment by local unit	330,789
Payment to local unit	<u>(2,416)</u>
Changes in net assets	145,948
Net assets - beginning of year	<u>664,023</u>
Net assets - end of year	<u><u>\$ 809,971</u></u>

See accompanying notes to financial statements

Merritt Township  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended March 31, 2006

Cash flows from operating activities:

Cash received from customers	\$ 186,548
Cash payments to suppliers for goods and services	(66,012)
Cash payments to employees for services	(39,940)
Other operating income	<u>15,758</u>

Net cash provided by operating activities	<u>96,354</u>
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Cash flows from capital and related financing activities:

Principal paid on long-term debt	(228,972)
Interest paid on long-term debt	(131,392)
Proceeds from long-term debt	140,000
Acquisition and construction of capital assets	18,018
Payments from local units	<u>165,998</u>

Net cash (used) by capital and related financing activities	<u>(36,348)</u>
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Cash flows from investing activities:

Interest and investment earnings	<u>3,524</u>
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Net increase in cash and cash equivalents	63,530
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Cash and cash equivalents, beginning of year	<u>98,281</u>
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Cash and cash equivalents, end of year	<u><u>\$ 161,811</u></u>
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Reconciliation of Operating Income (Loss) To Net Cash Provided by Operating Activities

Operating income (loss)	\$ (33,014)
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Adjustment to reconcile operating income (loss) to net  
cash provided by operating activities:

Depreciation	114,750
Changes in assets and liabilities:	
Accounts receivable	(607)
Due from other governments	(4,390)
Advances	(30)
Accounts payable	19,247
Accrued liabilities	<u>398</u>

Net cash provided by operating activities	<u><u>\$ 96,354</u></u>
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See accompanying notes to financial statements

Merritt Township  
Statement of Fiduciary Net Assets  
March 31, 2006

	<u>Tax Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 5,558</u>
<u>LIABILITIES</u>	
Due to other governmental units	<u>\$ 5,558</u>

See accompanying notes to financial statements.

**Merritt Township**  
**Notes to Financial Statements**  
**For the Year Ended March 31, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Merritt conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Merritt.

**Reporting Entity**

The Township of Merritt is governed by an elected five member council (Board). The accompanying financial statements present the financial position and results of operations for the Township and its component units, entities for which the government is considered to be financially accountable.

These statements also include the water system managed by the Bay County Department of Water and Sewer on behalf of the Township. GASB #34 now requires this activity to be reported in the Township's annual financial statements. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2005. This fund is the Township's only proprietary fund.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Merritt Township**  
**Notes to Financial Statements**  
**For the Year Ended March 31, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Government reports the following major funds:

**General Fund** - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

**Road Construction Fund** – The Road Construction Fund is used to record transactions relative to the repairs and upgrades to existing roads of the Township.

**Fire Equipment Fund** – The Fire Equipment Fund is used to record the purchases and repairs of fire equipment for the Township.

**Water A & B** – The Water A & B Fund is used to record transaction for the funding and payment of principal and interest of certain water main improvements.

**Water C, D & E** – The Water C, D & E Fund is used to record transactions for the funding and payment of principal and interest of certain water main improvements.

**Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund** – This fund accounts for the activities of providing water service to the public. These activities are managed by the Bay County Department of Water and Sewer on behalf of the Township. This fund is the Township's only proprietary fund.

**Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 40 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	15 to 40 Years
Building improvements	15 to 20 Years
Water systems	40 Years
Vehicles	7 to 12 Years
Machinery and equipment	5 to 7 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Merritt follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Road Construction Fund and Fire Equipment Fund is presented as Required Supplemental Information.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Government is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	<u>\$ 1,428,118</u>	<u>\$ 161,811</u>	<u>\$ 5,558</u>	<u>\$ 1,595,487</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,595,337
Petty cash and cash on hand	<u>150</u>
Total	<u>\$ 1,595,487</u>

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2005, \$1,113,281 of the Township's bank balance of \$1,464,118 was exposed to custodial credit risk because it was uninsured and uncollateralized. Business-type activity funds of \$133,629 are with the Department of Water and Sewer. The composition of deposits and investments and the amount of deposits covered by federal depository insurance cannot be determined.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Township for the current year was as follows:

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<b><u>Governmental activities:</u></b>				
Capital assets not being depreciated				
Land	\$ 93,500	\$ 0	\$ 0	\$ 93,500
Capital assets being depreciated:				
Buildings and improvements	778,069	29,697	0	807,766
Vehicles	341,585	0	0	341,585
Machinery and equipment	112,189	21,741	0	133,930
Subtotal	<u>1,231,843</u>	<u>51,438</u>	<u>0</u>	<u>1,283,281</u>
Less accumulated depreciation for:				
Buildings and improvements	676,732	6,988	0	683,720
Vehicles	244,287	18,867	0	263,154
Machinery and equipment	99,300	7,941	0	107,241
Subtotal	<u>1,020,319</u>	<u>33,796</u>	<u>0</u>	<u>1,054,115</u>
Net capital assets being depreciated	<u>211,524</u>	<u>17,642</u>	<u>0</u>	<u>229,166</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 305,024</u>	<u>\$ 17,642</u>	<u>\$ 0</u>	<u>\$ 322,666</u>
<b><u>Business-type activities:</u></b>				
Capital assets being depreciated:				
Water system	\$ 4,631,000	\$ 120,885	\$ 0	\$ 4,751,885
Less accumulated depreciation for:				
Water system	<u>844,814</u>	<u>114,750</u>	<u>0</u>	<u>959,564</u>
Business-type activities, total capital assets, net of depreciation	<u>\$ 3,786,186</u>	<u>\$ 6,135</u>	<u>\$ 0</u>	<u>\$ 3,792,321</u>

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 7,077
Public safety	<u>26,719</u>
Total governmental activities depreciation expense	<u>\$ 33,796</u>
Business-type activities	
Water	<u>\$ 114,750</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A summary of inter-fund receivable and payable balances at March 31, 2006 and transfers made during the year ended March 31, 2006 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 51,754	\$ 0	\$ 0	\$ 6,300
Recreation	0	0	5,000	0
Liquor Law Enforcement	0	0	1,300	0
Fire Equipment	0	51,754	0	0
Water I	0	4,890	0	0
Water J	4,890	0	0	0
	<u>\$ 56,644</u>	<u>\$ 56,644</u>	<u>\$ 6,300</u>	<u>\$ 6,300</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) supplement operational costs, and (2) reflect funding support for debt service.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 6- LONG-TERM DEBT**

All of the Township's debt is related to water system improvements and is reported in the proprietary fund as the Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund. The following detail shows what is owed by the Township, but does not agree exactly to the financial statements because (1) the amounts are reported as of December 31, 2005, and (2) a percentage allocation was applied to the total DWS amounts to arrive at Merritt's portion. The difference is not significant.

All of the Township's debt is considered special assessment bonds except for the 1977 bond issue, which is a revenue bond. The Township has pledged its full faith and credit for the special assessment bonds.

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 6- LONG-TERM DEBT (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
1977 Merritt-Portsmouth Water Extension Bonds, due in annual installments through 2016 with an interest rate of 5%. The bonds are being repaid by customer charges.	\$ 191,100	\$ (15,400)	\$ 175,700
1998 Merritt-Portsmouth Townships Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through May 1, 2018, bearing interest rates of 4.7% to 4.75%.	913,096	(59,601)	853,495
2000 Merritt Township Water Extension General Obligation Bonds, dated September 1, 2000, due in annual installments through November 1, 2020, bearing interest rates of 4.85% to 5.25%.	1,755,000	(100,000)	1,655,000
2002 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing interest rate of 5.9%.	92,000	(8,000)	84,000
2002 Special Assessment Water Bonds, due in semi-annual installments through November 1, 2017, bearing interest rates of 2.45% to 5.15%.	181,000	(13,000)	168,000
2003 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing interest rate of 4.59%.	38,000	(2,000)	36,000
2004 Installment Purchase Agreement, due in annual installments through September 2019, bearing interest rate of 4.11%.	140,000	(12,741)	127,259
2005 Installment Purchase Agreement, due in annual installments through March 2019, bearing interest rate of 4.45%.	<u>0</u>	<u>118,024</u>	<u>118,024</u>
Total	<u>\$ 3,310,196</u>	<u>\$ (92,718)</u>	<u>\$ 3,217,478</u>

Merritt Township  
Notes to Financial Statements  
For the Year Ended March 31, 2006

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

Long-term obligation activity can be summarized as follows:

	Balance April 1, 2005	Additions	Retirements and Payments	Balance March 31, 2006	Amount Due Within One Year
Bonds	<u>\$3,310,196</u>	<u>\$ 140,000</u>	<u>\$ (232,718)</u>	<u>\$3,217,478</u>	<u>\$ 215,997</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 215,997	\$ 148,496
2008	223,047	138,648
2009	225,126	128,580
2010	233,220	118,242
2011	233,961	107,666
2012-2016	1,189,561	374,752
2017-2021	<u>896,566</u>	<u>99,820</u>
Total	<u>\$ 3,217,478</u>	<u>\$ 1,116,204</u>

**NOTE 7 – PENSION PLAN**

The Township provides pension benefits through a defined contribution plan with Manulife Financial. The Township contributes 15% of compensation for eligible employees. The Township's pension expense for the year ended March 31, 2006 amounted to \$7,145.

Merritt Township  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended March 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 73,785	\$ 73,785	\$ 79,080	\$ 5,295
State shared revenue	105,000	105,000	104,961	(39)
Charges for services	14,000	14,000	15,324	1,324
Investment income	3,700	3,700	21,146	17,446
Miscellaneous revenues	16,000	16,000	21,188	5,188
Total revenues	212,485	212,485	241,699	29,214
<u>Expenditures</u>				
General government	193,950	184,970	168,481	16,489
Public safety	43,250	49,310	47,170	2,140
Public works	25,380	28,300	25,884	2,416
Capital outlay	10,000	10,000	0	10,000
Total expenditures	272,580	272,580	241,535	31,045
Excess (deficiency) of revenues over expenditures	(60,095)	(60,095)	164	60,259
<u>Other Financing (Uses)</u>				
Operating transfers in (out) to other funds	(688)	6,450	(6,300)	(12,750)
Net change in fund balance	(60,783)	(53,645)	(6,136)	47,509
Fund balance - beginning of year	337,277	337,277	337,277	0
Fund balance - end of year	\$ 276,494	\$ 283,632	\$ 331,141	\$ 47,509

Merritt Township  
Required Supplemental Information  
Budgetary Comparison Schedule - Road Construction Fund  
For the Year Ended March 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 127,300	\$ 127,300	\$ 135,475	\$ 8,175
Miscellaneous revenues	3,000	3,000	0	(3,000)
Total revenues	130,300	130,300	135,475	5,175
<u>Expenditures</u>				
Highways, street and bridges	197,085	197,085	125,756	71,329
Contingency	140,683	140,683	0	140,683
Total expenditures	337,768	337,768	125,756	212,012
Excess (deficiency) of revenues over expenditures	(207,468)	(207,468)	9,719	217,187
Fund balance - beginning of year	214,756	214,756	214,756	0
Fund balance - end of year	<u>\$ 7,288</u>	<u>\$ 7,288</u>	<u>\$ 224,475</u>	<u>\$ 217,187</u>

Merritt Township  
Required Supplemental Information  
Budgetary Comparison Schedule - Fire Equipment Fund  
For the Year Ended March 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 57,400	\$ 57,400	\$ 45,845	\$ (11,555)
Miscellaneous revenues	0	264,853	0	(264,853)
Total revenues	57,400	322,253	45,845	(276,408)
<u>Expenditures</u>				
Other	0	353,423	0	353,423
Contingency	51,489	0	0	0
Total expenditures	51,489	353,423	0	353,423
Excess (deficiency) of revenues over expenditures	5,911	(31,170)	45,845	77,015
<u>Other Financing (Uses)</u>				
Operating transfers in (out) to other funds	(5,611)	(5,611)	0	5,611
Net change in fund balance	300	(36,781)	45,845	82,626
Fund balance - beginning of year	38,931	38,931	38,931	0
Fund balance - end of year	<u>\$ 39,231</u>	<u>\$ 2,150</u>	<u>\$ 84,776</u>	<u>\$ 82,626</u>

Merritt Township  
Other Supplemental Information  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
March 31, 2006

	Special Revenue Funds					Debt Service Funds				Capital Projects Fund		Totals
	Liquor Law Enforcement Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water Construction Fund		
<b>ASSETS</b>												
Cash and investments	\$ 115	\$ 87,240	\$ 3,644	\$ 3,149	\$ 23,209	\$ 27,869	\$ 39,007	\$ 36,345	\$ 8,349	\$ 3,316	\$	\$ 232,243
Taxes receivable	0	5,876	0	0	0	2,933	0	0	1,630	0		10,439
Due from other fund	0	0	0	0	0	0	0	0	4,890	0		4,890
Total assets	\$ 115	\$ 93,116	\$ 3,644	\$ 3,149	\$ 23,209	\$ 30,802	\$ 39,007	\$ 36,345	\$ 14,869	\$ 3,316	\$	\$ 247,572
<b>LIABILITIES AND FUND BALANCE</b>												
<b>Liabilities</b>												
Accounts payable	\$ 0	\$ 5,383	\$ 0	\$ 64	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$	\$ 5,447
Due to other fund	0	0	0	0	0	0	0	4,890	0	0		4,890
	0	5,383	0	64	0	0	0	4,890	0	0		10,337
<b>Fund Balance</b>												
Undesignated	115	87,733	3,644	3,085	23,209	30,802	39,007	31,455	14,869	3,316		237,235
Total Liabilities and Fund Balance	\$ 115	\$ 93,116	\$ 3,644	\$ 3,149	\$ 23,209	\$ 30,802	\$ 39,007	\$ 36,345	\$ 14,869	\$ 3,316	\$	\$ 247,572

Merritt Township  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended March 31, 2006

	Special Revenue Funds					Debt Service Funds				Capital Projects Fund	
	Liquor Law Enforcement Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water Fund Construction	Totals
<b>Revenues</b>											
Taxes	\$ 0	\$ 65,314	\$ 0	\$ 0	\$ 0	\$ 19,345	\$ 20,120	\$ 10,815	\$ 11,410	\$ 0	\$ 127,004
State shared revenue	1,422	0	0	0	0	0	0	0	0	0	1,422
Interest	0	0	0	0	0	32	44	161	0	42	279
Other	0	0	24,929	0	0	10,856	0	0	29,029	0	64,814
Licenses and permits	0	0	0	6,798	0	0	0	0	0	0	6,798
Total revenues	1,422	65,314	24,929	6,798	0	30,233	20,164	10,976	40,439	42	200,317
<b>Expenditures</b>											
Public safety	2,751	0	0	0	0	0	0	0	0	0	2,751
Recreation activities	0	0	30,830	0	0	0	0	0	0	0	30,830
Protective inspections	0	0	0	10,213	0	0	0	0	0	0	10,213
Sanitation	0	63,035	0	0	0	0	0	0	0	0	63,035
Other	0	0	0	0	0	0	125	180	0	0	305
Payment to Enterprise Fund for debt service	0	0	0	0	0	37,041	0	18,575	25,570	0	81,186
Total expenditures	2,751	63,035	30,830	10,213	0	37,041	125	18,755	25,570	0	188,320
Excess of revenues over (under) expenditures	(1,329)	2,279	(5,901)	(3,415)	0	(6,808)	20,039	(7,779)	14,869	42	11,997
<b>Other Financing Sources</b>											
Operating transfers in	1,300	0	5,000	0	0	0	0	0	0	0	6,300
Net change in fund balance	(29)	2,279	(901)	(3,415)	0	(6,808)	20,039	(7,779)	14,869	42	18,297
Fund balance - beginning of year	144	85,454	4,545	6,500	23,209	37,610	18,968	39,234	0	3,274	218,938
Fund balance - end of year	\$ 115	\$ 87,733	\$ 3,644	\$ 3,085	\$ 23,209	\$ 30,802	\$ 39,007	\$ 31,455	\$ 14,869	\$ 3,316	\$ 237,235